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Flathead housing market still strong, business climate rich with options

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□The Daily Inter Lake

Never mind what the rest of the country's housing market is doing. Flathead County's market is very much alive and well, representing the nearly one fifth of the total new-home market in Montana.

And, to generate a living for the families buying those homes, the Flathead business community may do well to focus on producing more of the raw materials needed by local industries in order to stem the tide of exported dollars.

That was just a small part of what Kalispell appraiser Jim Kelley and Flathead Valley Community College economist Gregg Davis offered at the fifth annual Flathead Valley Economic Forecast this week.

Montana West Economic Development invited the two to present a snapshot of the regional economy.

First, Kelley's view from the housing sector.

Montana Department of Revenue tax records from 2005, the most recent available, show that 19.2 percent of all new homes in Montana were built in Flathead County.

Of the state's 8,423 new homes that year, 1,615 were in the Flathead alone.

That far outpaced Missoula County, with 859 homes (10.2 percent of the market), Yellowstone County (Billings) with 993 homes (11.8 percent), and even Gallatin County (Bozeman) with 1,420 homes (16.9 percent).

A quick tour of the area suggests the vigor continues today. But Kelley put some hard numbers to that roadside tour.

Since the mid-1980s the number of homes sold annually has quadrupled, from 454 in 1984 to 1,870 in 2006.

But the average selling price increased nearly seven-fold, from $54,657 to last year's $356,683.

While outright numbers of homes sold rode a roller coaster that peaked in 1992, dropped and then rose again until it surpassed the former high by 2001, prices never flagged in their steady escalation.

Kelley keyed in on recent trends.

The housing market saw a startling price jump from 2002 to 2003. The average selling price in that period rose from $184,054 to $225,547, representing a 22.5 percent growth. The median price grew by 15.9 percent.

Both were a big switch from single-digit growth trends. But the exaggerated acceleration was short-lived.

Rate of growth for average home prices rose by about a point in 2004, then dropped to just 11.2 percent a year later. Average home prices in 2006 grew by four points.

Median prices, on the other hand, continued their rise through 2005, when rate of growth was 18 percent over the previous year. In 2006 — when the county's median price was $245,000 — rate of growth was 11.4 percent.

Kelley was quick to silence the naysayers who fear a housing crash.

"Although the rate of increase last year is lower than the previous three," he said, "it's still higher than it historically was ... The number of sales has continued to increase, too."

Certainly much of that is due to simple population growth.

And that population in 2006 was asking for considerably more money when they sold a home than they actually received on closing — nearly twice as much, in fact.

Although the number is somewhat distorted by a few high-end homes on the market that Kelly said probably never will sell, the average home in 2006 listed for $699,439.

But the average selling price, after the buy-sell was negotiated, came in at $356,683.

"Expectations always have been higher than actual sales," Kelley said. "This points out the discrepancy in the market."

Just over 60 percent of all homes sold in 2006 were in the $100,000 to $300,000 range. Listings were in that range, too, Kelley said.

Out-of-area home ownership — something that Kelley just started tracking in 2005 — is creeping upward. In 2005, 14.7 percent of single-family homes were owned by people who did not live in the Flathead. In 2006, it was 15.5 percent.

"Those could be second homes," Kelley said.

"It will be interesting to track that in the future. I suspect the trend will continue ... In the national economy, as baby boomers age they buy second homes that could become primary homes in the future."

In the business sector, Davis focused on two fronts:

"Identifying industries that, because of their relationships to other industries in the valley, could give the Flathead Valley a sizable bang for their buck," Davis said, "if we could do anything to help."

The help may come in the form of workforce training classes at FVCC, building infrastructure or enacting policies to boost the economy, he suggested.

His second focus locked on that line.

"Identifying within those industries where our local demand might be better accommodated through local production. That's what we mean by 'import substitution,'" he said.

"Are there industries presently buying from the outside that could buy from the inside?" Davis suggested exploring how local businesses can buy from and supply each other, particularly when an industry is buying substantial amounts of a key resource it needs to produce its goods. "Why can't we entice a local firm to come in and fill that void, and then export the leftover?"

It would require research into three points, he said.

First, can the industry get the products it needs to buy locally?

Second, if a firm is enticed to meet a local demand, economy of scale may require the firm to produce far greater quantities than the local industry needs. The excess would have to be sold outside the area.

Third, where will that firm ship its excess?

That research process is especially important, he said, in agriculture, manufacturing and other industries that rely on bigger-demand markets.

Production within a specific industry is only part of the economic equation that Davis highlighted.

The other portion, he explained, boils down to "multipliers" — or how many jobs and dollars are generated.

High-multiplier industries will take very few people or a comparatively small payroll to generate a big impact in other industries.

Utilities, manufacturing, information services and real estate are examples of high-multiplier industries in terms of employment. The reverberate through the local economy and create more jobs in the area.

"People tend to focus on the high-multiplier industries as the ones we want to go after," Davis said. "That may be true, because they add more jobs in other sectors.

"But if they go for low-multiplier industries, they create more jobs in that specific industry."

Examples of low-multiplier arenas are arts, entertainment and recreation, educational services, or the hospitality industry.

"I'm just saying we shouldn't ignore the low-multipliers," he said. "It will add more to the local employment numbers" for every million dollars of activity generated in the economy.

"If you want the number of people employed, bring in low-multipliers," he said. "If you want to stimulate other sectors of the economy, bring in high-multipliers.

"Montana is an economy of small business. So maybe our forte is in finding these small-niche businesses. We're not only small-business driven, but we're extra-small-business driven," heavily weighted toward those that employ five, 10 or 15 people, he said.

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